

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

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ISSUE 1: Office of the Secretary of Education – State Operations

DESCRIPTION: The Governor proposes two major budget changes for the Office of the Secretary of Education (OSE) in 2008-09. The Governor proposes a **\$351,000** decrease to the OSE General Fund budget as a part of his Budget Balancing Reductions for all state agencies. In addition, the Governor proposes to consolidate funding for the State Board of Education within OSE. This proposed consolidation would shift **\$1.6 million** in funding for the State Board from the California Department of Education to OSE.

BACKGROUND: The Secretary of Education, a member of the Governor's Cabinet, is responsible for advising the Governor and making recommendations on state education policy and legislation. While OSE has not been established in statute, it has operated for a number of years in an advisory role for the Administration.

The Office of the Secretary is funded annually through two separate budget items. Half of the OSE's budget appropriation is contained in its main support item (0558-001-0001); the other half of its appropriation is provided through the Governor's Office of Planning and Research (0650-011-0001).

GOVERNOR'S BUDGET: The Governor's budget proposes **\$3.7 million** for OSE in 2008-09, an increase of \$1.6 million above the 2007-08 budget. Of total funding proposed, \$3.5 million is General Fund and \$273,000 is provided through reimbursements.

Summary of Expenditures (Dollars in thousands)	Positions			Expenditures		
	2006-07	2007-08	2008-09	2006-07	2007-08	2008-09
	13.0	17.5	25.1	\$2,058	\$2,323	\$3,700
Funding						
General Fund				\$1,794-	\$1,973	\$3,427
Reimbursements				264	355	273
Total				\$2,058	\$2,328	\$3,700

In addition to a number of baseline adjustments, the Governor's budget includes two major budget changes:

1. **State Board Staffing.** The Governor's January budget proposes to consolidate the administrative staff of the State Board of Education with the Office of the Secretary. This proposal involves a shift of **\$1,576,000** and **7.6 positions** for the State Board from the California Department of Education budget to OSE in 2008-09. This includes one position assigned to the State Board for statutory oversight of charter

schools approved by the Board. According to OSE, the idea behind this proposal is to develop more policy coherence between the State Board and OSE. In addition, there is interest in building more streamlined processes for policy formulation and development.

2. **Budget Balancing Reductions.** The Governor's budget includes an unallocated reduction of **\$351,000** for the OSE budget in 2008-09. This equates to a ten percent reduction to OSE's General Fund budget, which includes the proposed shift of State Board staff. Without the State Board shift, the unallocated reductions would equal \$200,000.

LAO ANALYSIS/RECOMMENDATIONS: The LAO recommends action to move toward the governance structure for OSE and the State Board, as recommended by the K-12 Master Plan report. The LAO will provide more detailed recommendations at the Subcommittee hearing.

COMMENTS:

Administration No Longer Pursuing the State Board Staffing Shift. The Administration has informed legislative staff that it is no longer pursuing the proposal to shift the State Board staff to OSE. While the Administration does not plan to officially rescind their proposal, they request that the Legislature take action to reject the Governor's January budget proposal and restore the funding structures for the State Board and OSE contained in the 2007-08 budget. The Administration does not plan to include this budget change as a part of their May Revise proposals.

Legislative Options for Consolidating or Eliminating OSE. While it is no longer being pursued by the Administration, the proposal to shift funding for the State Board and OSE does raise the possibility of consolidation of OSE and State Board staff that would result in the elimination of duplicative staff and General Fund savings for the state. Of the \$3.7 million proposed for OSE in 2008-09, the Governor provides approximately \$2.1 million to continue the operations of OSE and \$1.6 million for State Board operations.

Currently, OSE has 18 authorized positions; the State Board has 8 authorized positions. Vacancy rates for both agencies have fluctuated significantly in recent years. Currently, 16 of OSE's 18 authorized positions are filled (2 vacancies) and 2 of the State Board's 8 authorized positions are currently filled (6 vacancies). Under the Governor's original consolidation proposal, funding at OSE would have been available for support of the State Board. Given the high vacancies at the State Board and OSE and given some initial interest in combining their functions by the Administration, it may be possible to consolidate functions for the two entities and reduce funding. Savings associated with persistently vacant positions at both entities could total approximately **\$1.0 million** in 2008-09.

Given the state budget shortfall, the Legislature could also consider elimination of OSE. The office does not administer education program nor does it provide direct program, policy, or budget oversight to other state education departments or agencies. OSE has never been established statutorily. Total elimination of OSE would generate approximately **\$2.1 million** in General Fund savings. Alternatively, the Legislature could consider reducing direct funding to OSE of approximately **\$1.0 million** and retaining **\$1.0 million** in remaining funding for the Office of Planning and Research for education policy.

RECOMMENDATION: *Staff recommends* that the Subcommittee hold off on action on the OSE budget until after May Revise.

ISSUE 2: State Operations – CDE Headquarters (6110-001-0001/0890)

DESCRIPTION: The Governor proposes a ten percent unallocated reduction for the California Department of Education (CDE) state operations budget as a part of his Budget Balancing Reductions. This reduction equates to a **\$5.6 million** unallocated reduction in 2008-09 for CDE headquarters staff. In addition, the Governor proposes a number of smaller adjustments for headquarters staff and operations – primarily staffing increases and decreases – in 2008-09 that are included in the Governor’s January budget and a Department of Finance April Finance Letter. CDE will update the Subcommittee on plans to implement the Governor’s unallocated reduction and its impact on the department’s operations. The department will also summarize other state operations adjustments proposed by the Governor in 2008-09.

BACKGROUND:

California Department of Education Authorized Positions and State Operations Funding			
	06-07	07-08	Proposed 08-09
Authorized Positions			
Headquarters	1,575.3	1,583.9	1,582.0
State Special Schools	1,007.4	1,008.4	1,008.4
Total before Salary Savings	2,582.7	2,592.3	2,590.4
Funding			
CDE Headquarters			
General Fund	52,147,000	55,395,000	50,399,000
Federal Fund	162,161,000	160,883,000	152,481,000
Other (Restricted)	33,784,000	36,392,000	39,653,000
Total	248,092,000	252,670,000	242,533,000
Percent General Fund	21%	22%	21%
Percent federal	65%	64%	63%
CDE State Special Schools			
Proposition 98 GF	44,533,000	45,759,000	41,406,000
Non-Proposition 98 GF	39,323,000	40,587,000	38,371,000
Federal Fund			
Other	6,054,000	6,176,000	6,337,000
Total	89,910,000	92,522,000	86,114,000
CDE Headquarters & State Special Schools			
General Fund	136,003,000	141,741,000	130,176,000
Federal Fund	162,161,000	160,883,000	152,481,000
Other	39,838,000	42,568,000	45,990,000
Total	338,002,000	345,192,000	328,647,000

Except for 2008-09, data are current-year estimates (middle column) from the Governor's Budget.

GOVERNOR'S BUDGET:

Budget Balancing Reductions. As a part of the Governor's Budget Balancing Reductions (BBRs), the Governor proposes a **\$5.6 million** reduction for CDE headquarters staffing and operating expenses. This equates to a ten percent reduction to the General Fund budget for CDE headquarters budget. CDE headquarters staff administer state education programs and provide program support to local education agencies. As proposed by the Governor, the Superintendent of Public Instruction would have discretion to allocate this reduction.

Governor's Budget – Other CDE Staffing Proposals. The Governor January budget and April Letter propose the following adjustments for the Department of Education:

General Fund Adjustments:

- **Shift Funding and Staff for State Board of Education to Office of the Secretary (OSE).** Shifts \$1,567,000 in state General Funds and 8.0 positions for the State Board of Education to OSE. This issue is fully described in the OSE item of this Subcommittee agenda. The Administration is no longer pursuing this proposal.
- **School Districts of Choice.** Provides \$131,000 in state General Funds for 1.0 position to meet reporting requirements required as part of the sunset extension of the Districts of Choice program enacted by SB 80 (Chapter xxx; Statutes of 2007). This measure mandated new reporting and evaluation requirements. Districts must report data and information about student inter-district transfers. CDE must now collect, analyze, and post information about inter-district transfers and must also prepare a comprehensive evaluation study of transfer options for students.
- **Anti-Discrimination Monitoring.** Provides \$40,000 in state General Funds for 0.3 position to implement the requirements of AB 394 (Chapter 566, Statutes of 2007). This measure requires CDE to assess local education agencies -- as part of the department's existing monitoring process -- for compliance with specific anti-discrimination and harassment policies and procedures to protect students, and to display specific discrimination and harassment prevention information on their website.
- **Math and Reading Professional Development Program – English Learners.** Provides \$109,000 in state General Funds to continue and make permanent 1.0 position to administer the provisions of SB 472 (Chapter 524; Statutes of 2006). This measure authorizes an English Learner component to the Math and Reading Professional Development program. The 2006-07 Budget Act added \$25 million

in ongoing funding for this program. The current position within CDE is authorized until June 30, 2008.

- **Career Technical Education Website Development and Maintenance.** Provides \$100,000 in state General Funds for 1.0 limited-term position to implement AB 597 (Chapter 529, Statutes of 2007). This measure requires CDE to create a comprehensive, easy to access, user-friendly website with information about Career Technical Education opportunities and programs available in the state.
- **Reading Language Arts Adoption.** Provides \$102,000 in General Funds to provide support for the 2008 Reading Language Arts instructional materials adoption.

Federal Funds Adjustments:

- **Child Care - Alternative Payment Monitoring.** Provides \$742,000 in federal Child Development funds for 7.0 positions to meet new federal audit requirements for the Improper Payments Information Act, which became effective October 1, 2007.
- **Teacher Data System.** Provides \$231,000 in federal Title II funds for 2.0 limited-term positions related to development of the California Longitudinal Teacher Integrated Data System (CALTIDES). These limited-term positions would be available for one year only.
- **California High School Exit Exam (CAHSEE).** Provides \$103,000 in federal Title VI funds for 1.0 position to monitor changes to CAHSEE pursuant to AB 347 (Chapter 526, Statutes of 2007). This measure implemented a settlement agreement in the *Valenzuela v. O'Connell* lawsuit by requiring school districts to provide intensive instruction and services for two additional, consecutive years to pupils who have not passed the high school exit examination by the end of twelfth grade. According to CDE, this position will facilitate the administration of the new exam requirements, communicate with local education agencies, prepare bill analyses and State Board of Education items, and help to monitor the CAHSEE contractor for compliance.
- **Child Nutrition and Information and Payment System (CNIPS).** Provides \$1,874,000 in federal Child Nutrition funds to extend 7.2 limited-term positions for one additional year. CNIPS is an information technology system used to administer four United States Department of Agriculture (USDA) programs, including School Nutrition, Child and Adult Care Food, Summer Food, and Food Distribution. Delays in software contract approval and design complexities have delayed implementation of the project by one year.

DOF April Letter Requests:

- **Federal School Improvement Grant Program (Issue 567).** Requests \$378,000 in federal Title I School Improvement Grant (SIG) funds for 4.0 positions to support the new SIG program. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. These positions would establish a competitive grant process, review applications, award funds, and monitor progress. Expenditure of these funds is proposed to be contingent upon final approval of specific program criteria by the State Board of Education.
- **Federal Child and Adult Care Food Program (Issue 643).** Requests an increase of \$172,000 in Federal Child Nutrition Funds to establish 2.0 positions to improve the department's compliance monitoring and technical assistance for the federal Child and Adult Care Food Program. This program provides funding to licensed child care centers, adult day care centers, and organizations that sponsor day care homes to ensure participants receive nutritionally-adequate meals and snacks. Recently, the federal government found an increasing number of sponsors that are seriously deficient in their administration of the program. As a result, the U.S. Department of Agriculture and Congress have imposed new financial management requirements on sponsors and additional oversight responsibilities for the department.

CDE STAFFING ISSUES: There are a number of positions requests that the CDE submitted to the DOF that were not approved by the Governor in the January budget or not included in the April Finance Letter. The department will provide information to the Subcommittee on those items that they designate as the highest priority.

COMMENTS/RECOMMENDATIONS: *Staff recommends* that the Subcommittee delay approval of the Governor's proposals for CDE state operations until after May Revise to coordinate with actions for General Fund Proposition 98 local assistance programs and actions on federal programs.

Staff further recommends that the Subcommittee request CDE to develop a general plan for implementing the **\$5.6 million** in unallocated reductions proposed by the Governor and provide that plan to the Subcommittee prior to May Revision.

ISSUE 3. State Operations – State Special Schools (6110-001-0001, 6110-005-0001, 6110-006-0001)

DESCRIPTION: The Governor proposes to reduce the General Fund budget for the State Special Schools by a total of **\$9.2 million** in 2008-09, as a part of his Budget Balancing Reductions. This amount includes a **\$5.1 million** reduction in Proposition 98 General Funds and **\$4.2 million** in Non-98 General Funds. The State Special Schools will describe their specific plan for implementing the Governor’s unallocated reduction and assess its impact.

BACKGROUND: These schools are administered by the California Department of Education. The State Special Schools include the California Schools for the Deaf in Fremont and Riverside and the California School for the Blind in Fremont. Students attending State Special Schools are served in residential or day programs. The two Schools for the Deaf provide instructional programs to approximately 927 deaf students and the California School for the Blind provides instructional programs for approximately 89 blind, visually-impaired, and deaf-blind students in 2007-08.

State Special School Enrollments	2004-05	2005-06	2006-07	2007-08
School for the Deaf, Riverside	484	449	430	443
School for the Deaf, Fremont	473	490	485	484
School for the Blind, Fremont	85	88	85	89
TOTAL	1,042	1,027	1,000	1,016

In addition, the State Special Schools include three State Diagnostic Centers regionally located in Fresno, Fremont, and Los Angeles. These centers administer assessment to approximately 1,500 students per year and provide training to 31,000 educators annually. Approximately 250 assessments occur annually at the three centers; the remaining 1,250 are considered “field” assessment, which take place within local education agencies.

GOVERNOR’S BUDGET: The Governor's budget proposes total General Fund support of **\$78.8 million** for the state’s three special schools and three diagnostic centers in 2008-09. Of this amount, **\$41.4 million** is provided by Proposition 98 General Funds and **\$37.4 million** is provided by Non-98 General Funds. There are currently a total of 1,080 authorized positions for the special schools and diagnostic centers.

Governor’s Budget Balancing Reductions. The Governor proposes to reduce the General Fund budget for the State Special Schools by a total of **\$9.2 million** in 2008-09, as a part of his Budget Balancing Reductions. This amount includes a **\$5.1 million** reduction (10.9 percent) for Proposition 98 General Fund appropriations and **\$4.2 million** (10 percent) for Non-98 General Fund appropriations in 2008-09.

CDE/STATE SPECIAL SCHOOLS ISSUES: The State Special Schools has developed a specific plan for implementing the Governor's \$9.2 million unallocated reduction. According to their plan, the Governor's reduction will result in the elimination of 68.5 positions at the State Special Schools and Diagnostic Centers. Specifically, the Governor's reduction will require layoff of 26.5 filled positions, elimination of 36.5 vacant positions and demotion of 5.5 other positions. A summary of these position reductions is provided below:

- 17 Teachers
- 11.5 Teaching Specialists
 - 1 Teaching Supervisor
- 11 Teaching Assistants
- 2 School Counselors
- 1 Supervising Nurse
- 0.5 Physician
 - 1 Security Guard
 - 1 Night Attendant
- 13 Dormitory Counselors
 - 2 Supervising Dormitory Counselors
 - 2 Office Technicians

Unlike local assistance programs, the Governor did not build a workload budget for the Special Schools that included a 4.9 percent cost-of-living adjustment (COLA) for programs prior to applying the ten percent reduction. However, the Special Schools did receive a 4.9 percent price increase for their programs and compensation adjustments for their employees.

LAO ANALYSIS/RECOMMENDATIONS: The LAO suggests looking into federal special education carryover funds to backfill the Governor's proposed reduction, which they believe is an allowable use of federal funds.

COMMENTS/RECOMMENDATIONS: *Staff does not recommend* support for the Governor's **\$9.2 million** unallocated reduction because it results in direct reductions of instruction and support services for students at the State Special Schools. While the State Special Schools has developed a plan for implementing the Governor's reductions, staff does not support that plan, which specifies reductions to instructional staff and other student support personnel. Instead, *staff recommends* that the Subcommittee consider the State Special Schools as a local assistance program in considering budget reductions because the State Special Schools provide direct instruction and support to students.

Staff further recommends that the Subcommittee delay action on the **\$9.2 million** unallocated reduction proposed by the Governor in 2008-09 for the State Special Schools

in order to explore other savings options for the State Special Schools that do not affect the instruction and support for students attending the State Special Schools. Specifically, *staff recommends* that the LAO evaluate the possibility of savings associated with reducing field assessments conducted by the State Diagnostic Centers for local schools districts or charging local districts for the costs of providing those assessments.

Staff also supports the LAO's suggestion to explore the availability of federal funds to backfill the Governor's proposed reductions.

ISSUE 4. State Special Schools -- Capital Outlay (6110-301-0660)

DESCRIPTION: The Governor proposes three capital outlay projects for the State Special Schools. The Governor requests a total of **\$36.4 million** in new funding for these projects. All projects will be funded with lease-revenue bonds. These bonds will be financed with state General Funds -- appropriated to the California Department of Education -- once the projects are completed.

BACKGROUND: The State Special Schools has six facilities under its jurisdiction: three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The State Diagnostic Centers are regionally located in Fresno, Fremont, and Los Angeles. These state facilities comprise a total of 960,000 gross square feet on 176 acres of land.

GOVERNOR'S BUDGET: The Governor's January 10 budget proposes two new capital outlay projects for the State Special Schools. These projects involve funds for renovation of athletic facilities at two of the State Special Schools, as follows:

1. **Athletic Complex, California School for the Deaf, Fremont.** Requests **\$14,371,000** to renovate the football field and surrounding track and to add athletic locker room space at the California School for the Deaf, Fremont. The project includes the addition of an artificial turf football/soccer field, synthetic running track, field access, raised bleachers, press box, concession and restroom facilities, storage, equipment, fencing, parking, athletic locker rooms, stadium field lighting, drinking faucets, sideline team benches, and cable for the public address system and scoreboard.

2. **Athletic Complex, California School for the Deaf, Riverside.** Requests **\$17,123,000** to design and construct an athletic complex at the California School for the Deaf, Riverside to ensure the safety of participants and spectators and maximize the use of the files available for interscholastic sports, physical education classes, school functions, and recreational activities for residential students. The complex will be utilized for different sporting events including soccer, baseball, softball, track and field, football, and intramural activities for all students. The complex will improve accessibility, safety and convenience for those attending and participating by adding bleachers, lighting, restrooms, concession stand, electronic scoreboard with message boards, drinking fountains, storage, security, fencing, and accessible pathways.

DOF April Letter. The April DOF Letter requests the reappropriation of \$8,146,000 approved in the 2006-07 Budget Act and an augmentation of \$4,912,000 for the Kitchen and Dining Hall Renovation at the California School for the Deaf, Riverside. The total estimated cost at the end of the preliminary plan phase increases to \$13,670,000 with this augmentation. The April Letter request is provided below:

3. **Kitchen and Dining Hall Renovation, California School for the Deaf, Riverside.** Requests that Item 6110-301-0660 be increased by **\$4,912,000** to augment

the construction phase for the Kitchen and Dining Hall Renovation project at the California School for the Deaf, Riverside. During the design phase, it was determined that the project scope would need to include: (1) extra bathroom facilities in order to meet state plumbing codes and (2) redesign of the kitchen layout to prevent contamination of food during preparation and serving.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has several concerns with the Governor's three capital outlay requests for the State Special Schools. With respect to the athletic complex and football field projects, the LAO is concerned about the high costs associated with the projects and will be exploring lower-cost alternatives that would focus on making the athletic fields safe place for students. In addition, the LAO will investigate the possibility of developing partnerships with local schools and cities to share facilities for athletic events.

The LAO will also investigate whether it would be more cost-effective to build a new kitchen/dining complex rather than continuing with the kitchen/dining project renovation project.

The LAO will be visiting project sites at the State Special Schools to evaluate the Governor's capital outlay proposals and develop recommendations to the Subcommittee.

COMMENTS/RECOMMENDATION: *Staff recommends* that the Subcommittee hold off on action on the Governor's capital outlay proposals for the State Special Schools until after May Revise in order to receive additional information and recommendations from the LAO and to better align capital outlay decisions -- which carry long-term General Fund costs -- with the most current fiscal information for the state.

6360 Commission on Teacher Credentialing

ISSUE 5: Commission on Teacher Credentialing – State Operations and Local Assistance

DESCRIPTION: The Governor’s budget for the Commission on Teacher Credentialing (CTC) estimates healthy fund balances for the two major special funds that support the CTC – the Test Development and Administration Account and the Teacher Credentials Fund in 2008-09. The Governor proposes increases for three state operations programs funded through these special funds or federal funds. As a part of his Budget Balancing Reductions, the Governor also proposes a **\$4.3 million reduction** to three Proposition 98 General Fund local assistance programs administered by CTC. The CTC will provide background on the Governor’s proposals; an update on special fund balances and credential workload; and present alternative savings proposals to the Governor’s reductions for local assistance programs.

BACKGROUND: The Commission on Teacher Credentialing (CTC) is responsible for the following:

- Issuing credentials, permits, certificates, and waivers to qualified applicants;
- Enforcing standards of practice and conduct for license applicants and holders;
- Developing standards and procedures for the preparation and licensure of school teachers and school service providers;
- Evaluating and approving teacher and school service provider preparation programs; and
- Developing and administering competency exams and performance assessments.

The CTC currently receives approximately 270,000 applications annually for approximately 200 different types of credentials, emergency permits, and credential waivers.

GOVERNOR’S BUDGET: The Governor’s Budget proposes **\$56.7 million** for the CTC’s budget in 2008-09.

Commission on Teacher Credentialing: Summary of Expenditures by Fund			
<i>(Dollars in Thousands)</i>	Actual 2006-07	Estimated 2007-08	Proposed 2008-09
General Fund, Proposition 98	31,034	35,881 ^{1/}	35,881 ^{2/}
Teacher Credentials Fund	15,323	15,273	15,366
Test Development and Administration Account	4,602	4,265	5,091
Reimbursements	903	248	398
Total Expenditures (All Funds)	\$51,862	\$55,667	\$56,736

^{1/} This reflects a reduction of \$4.0 million for the Special Session reductions. It is important to note this reduction did not impact the programs reduced. ^{2/} This reflects the proposed \$4.0 million reduction included in the Governor’s Budget for the proposed 10 percent across-the-board reduction.

In total, the Governor's Budget proposes to expend \$20.4 million from CTC's two special funds -- the Teacher Credentials Fund and the Test Development and Administration Account -- in 2008-09.

The Governor's budget proposes **\$35.9 million** from the General Fund (Proposition 98) to support three local assistance education programs administered by the CTC -- the Alternative Certification Program, Paraprofessional Teacher Training Program, and Teacher Assignment Monitoring Program. This amount includes the **\$4.3 million** reduction for these programs proposed by the Governor in 2008-09 as a part of the Budget Balancing Reduction. (A similar reduction was enacted for these programs in 2007-08, as a part of AB 4xxx, which was passed during special session earlier this year.)

Summary of Credential Workload. The CTC currently receives more than **270,000 applications** for credentials and credential waivers. As indicated below, the number of applications has continued to increase in recent years. In 2007-08, CTC is experiencing an increase of 5 percent in the application volume from FY 2006-07.

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	Est. 2007-08	Est. 2008-09
Credential Applications Received	215,954	239,501	250,701	235,327	233,164	240,159	254,892	267,637	264,153
Waiver Applications Received	7,865	7,918	5,144	2,827	2,402	2,000	2,561	2,561	2,561
Total	223,819	247,419	255,845	238,154	235,566	242,159	257,453	270,198	266,714
Credential Processing Staff*	82.1	83.2	77.4	71.2	60.6	65.2	66.8	75.9	69.1
Credential Fees	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55

*Certification Assignment and Waivers Division Staff

Elimination of Credentialing Backlog: There is currently no backlog in application processing. In recent years, the Legislature and Administration provided additional resources to CTC to address a credentialing backlog. In May 2006 the workload hit an all time high of 80,000 pending paper applications. In 2006-07, the backlog was substantially reduced and in 2007-08 the backlog has been eliminated.

Of total applications, 54 percent are being processed on-line within 10 working days. The other 46 percent of applications are processed within the required 50 working day processing time. AB 469 (Horton), Statutes of 2007, revised the application processing time from 75 working-days to 50 working-days effective January 1, 2008. CTC has continued to maintain this new processing time within the newly required 50 day limit.

Credential Staffing Changes: In 2006-07 the four (4) Consultant level positions from the Professional Services Division were bifurcated to seven (7) lower level positions and

transferred to the Certification, Assignment and Waivers Division to address the credentialing backlog. Now that the credentialing workload is aligned with the required processing times, at the end of FY 2007-08 this transfer is scheduled to expire and the four (4) positions will return to the Professional Services Division to address the on-going accreditation workload.

Healthy Fund Balances Estimated. The Governor's budget projects positive, healthy fund balances for CTC's two special funds in 2008-09. The budget estimates that the fund balance for the Teacher Credentials Fund will total \$5.1 million in 2007-08, assuming seven percent growth from 2007-08. The CTC will continue to monitor the estimates and will update the projections as necessary. The budget also estimates that the fund balance for the Test Development and Administration Account will total \$3.1 million in 2007-08.

The 2005-06 budget provided a **\$2.7 million** General Fund (Non-Proposition 98) appropriation to address a shortfall in special funds to support the CTC's state operations budget. These funds were provided on a one-time basis. Healthy fund balances were restored in 2006-07 and expenditures from the Teacher Credentials Fund and the Test Development and Administration Account were increased by \$2.7 million to offset the elimination of one-time General Funds.

GOVERNOR'S 2008-09 BUDGET PROPOSALS:

1. **Budget Balancing Reductions.** The Governor January budget proposes a **\$4.3 million** reduction for three General Fund (Proposition 98) local assistance programs administered by CTC. The Governor proposes ten percent reductions for each of these programs, as follows:

- Alternative Certification Program (\$3.5 million)
- Paraprofessional Teacher Training Program (\$855,000)
- Teacher Assignment Monitoring Program (\$34,000)

COMMENTS: The CTC has proposed an alternative reduction plan which yields a total of **\$5.9 million** in 2008-09. This provides additional General Fund savings of approximately \$1.6 million in 2008-09. These reductions reflect natural savings – associated with alignment of funding with program enrollment. CTC estimates savings of \$5,213,000 for the Alternative Certification and \$689,000 for the Paraprofessional Teacher Training Program. The CTC recommends no reductions for the Teacher Assignment Monitoring program.

Staff recommends approval of the CTC's alternative budget reduction proposal of **\$5.9 million**. This action would provide additional savings of approximately **\$1.6 million** in 2008-09 beyond the Governor's Budget, without reducing program services.

2. **Budget Adjustments – Teacher Data System.** The Governor’s January budget proposes an increase of **\$398,000** in federal Title II funds for continued development of the California Teachers Integrated Data System (CALTIDES) in 2008-09. This proposal would provide **\$248,000** in ongoing funding for **2.5 positions** to staff the CTC based upon the approved Feasibility Study Report approved by the Department of Finance in May 2006. The proposal would also provide **\$150,000** in one-time funds for temporary help staff to convert information on lifetime credential holders from microfilm to electronic media. This information is a part of CTC’s existing database that will be utilized by CALTIDES.

COMMENTS: Staff recommends approval of Governor’s Budget.

3. **Budget Adjustments – California Formative Assessment and Support System for Teachers (CFASST).** The Governor’s January budget proposes \$900,000 in expenditure authority from the Test Development and Administration Account (TDAA) in both 2008-09 and 2009-10 for the review and continued development of the state’s formative teacher assessment system – CFASST. This assessment system is used for the Beginning Teacher Support and Assessment (BTSA) program. This work will be performed under contract with local education agencies. This project is intended to improve the CFASST in response to concerns identified by the BTSA evaluation completed in 2007.

COMMENTS: Staff recommends approval of Governor’s Budget.

4. **April Budget Adjustments – Validity Studies and Examination Development.** As reflected in the Department of Finance April Letter, the Governor proposes to increase the expenditure authority of the Test Development and Administration Account by **\$350,000** to support teacher examination validation studies and examination development activities. Current law requires the CTC to ensure that teacher exams are valid and aligned with the state’s academic content standards and frameworks. These teacher exams include the California Basic Educational Skills Test, California Subject Matter Examinations for Teachers, and Reading Instruction Competence Assessment.

COMMENTS: Staff recommends approval of Governor’s Budget.

SUMMARY OF STAFF COMMENTS/RECOMMENDATIONS: In summary, staff recommends that the Subcommittee approve the Governor’s Budget for the three CTC *state operations* proposals outlined above (Items 2, 3 & 4). The Governor’s three state

operations proposals are funded either through CTC special funds or federal funds and do not affect the state General Fund.

In addition, *staff recommends* the Subcommittee not approve the Governor's **\$4.3 million** in reductions for CTC's three Proposition 98 *local assistance* programs in 2008-09 and instead approve the CTC's alternative reductions for these programs (Item 1). The CTC's alternative reductions for two programs would save **\$5.9 million** in 2008-09, or \$1.6 million more than the Governor's proposal without reducing program services.

ISSUE 6: School Facilities – LAO Proposals

DESCRIPTION: The Legislative Analyst's Office (LAO) has concerns with the Governor's Strategic Growth Plan for K-12 school facilities. Specifically, the LAO believes the Governor's plan fails to address underlying data issues and problems with the state bond Financial Hardship Program. The LAO also believes that while the Governor's plan would make significant improvements to facilities programs for charter schools, additional changes would be beneficial. The LAO will present their findings and recommendations on these issues to the Subcommittee.

BACKGROUND:

Governor's Strategic Growth Plan: As a part of the Governor's Strategic Growth Plan, the Administration proposes to place **\$11.6 billion** in new state general obligation bonds for K-12 education facilities before the voters in 2008 and 2010.

Governor's Proposed Bond Measures for K-12 Education (In Billions)			
	2008	2010	Totals
School Facilities Program:			
New construction	\$4.4	\$2.3	\$6.8
Modernization	—	0.8	0.8
Charter schools	1.0	1.0	2.0
Career technical education	1.0	1.0	2.0
Totals	\$6.4	\$5.2	\$11.6
Detail may not total due to rounding.			

As a part of his 2008 bond proposal, the Governor also makes several changes to the current bond program. As summarized by the LAO, these changes include:

Fewer Specific Types of Projects Funded. As shown in the figure above, the Governor's 2008 and 2010 bond proposals provide funding for fewer specific types of facility projects than Proposition 1D. Neither the 2008 nor 2010 measures would provide funding for overcrowded schools and environmentally friendly (or "green") schools. In addition, the proposed ballot measure for 2008 would provide no funding for modernization of school facilities. School districts

have been applying for modernization funds at much lower rates than expected; leaving a significant amount of the \$3.3 billion provided by Proposition 1D unspent. As of January 30, 2008, only \$591 million in modernization funds had been “reserved” by local school districts.

Changes to Charter School Programs. The Governor's bond proposal also includes various changes to the current program for charter school construction, as well as the Charter School Facility Grant Program that provides funding for rent and lease costs. These changes include:

- **Additional Options With Regards to Holding Title.** The Governor's bond proposal would allow another local government entity besides a school district—such as a city, county, or county board of education—to own title of a charter school facility. In addition, if a charter school is unable to find a local government agency to agree to hold title to the facility, the charter school may hold title. In such cases, the state would be able to recover the property if the school's charter was revoked or if the charter school was unable to pay back its loan from the state
- **Gives Preference to Low-Performing Districts.** Under the current charter school bond program, charter schools are given priority if they are in an overcrowded district, a low-income area, are operated by a nonprofit group, or utilize existing school district facilities. The Governor proposes to eliminate the preference for schools in overcrowded districts and would instead include a preference for charter schools in low-performing school districts.
- **More Flexibility for Charter School Facility Grant Program.** The Governor proposes to apply some of the flexibility of the federal State Charter School Facilities Incentive Grants Program to the state Charter School Facility Grant Program. In addition to using funds for lease costs, charter schools would be able to use the funds for debt service or mortgage payments related to construction of new facilities.

Creates a Small High School Pilot Program. The Governor proposes a new pilot program to fund the construction of small high schools. The pilot would provide \$20 million from prior-year bond funds to districts who are proposing to build a small high school. The pilot program would require districts to cover only 40 percent of project costs. It is intended to fund a group of schools that is representative of the state.

Changes State/Local Share. The Governor also proposes to change the state/local share for new construction projects. Beginning with the 2008 bond allocations, districts would be required to pay 60 percent of new construction projects, compared to the 50 percent that they must currently cover. (Given the bond would not include funding for modernization projects, the district share of those projects—40 percent—would be unchanged.)

LAO ANALYSIS/RECOMMENDATIONS: In their analysis of the 2008-09 budget, the LAO makes the following findings and recommendations about the Governor's Strategic Growth Plan as they relate to K-12 school facilities programs:

Create a School Facilities Data System. The LAO recommends the state build a school facilities data system that provides information on age, capacity, and cost of school facilities. This would enable the Legislature to determine the amount of bond funding needed to meet the needs of K-12 schools in the future.

More specifically, the LAO recommends that the Office of Public School Construction (OPSC) develop and maintain the database, using bond funds to cover associated costs, as it now does for other administrative activities. To encourage widespread participation, the Legislature could require school districts to provide this needed facility data as a condition of receiving funds through the state's Deferred Maintenance Program. To help ensure data is collected only when likely to be needed for making state bond decisions, the LAO recommends requiring reporting only every odd-numbered year.

The LAO makes the following findings about the need for school facility data:

- ***Significant Funds Remain From Prior Bonds.*** According to the LAO, a significant amount of prior-year bond funds remains unspent. The SFP program has over \$8 billion in available funds -- funds that have not been set aside for any school district. An additional \$3.9 billion in funds have been approved for specific school district projects but remain unspent because the district has not entered into a construction contract. Given the bulk of this funding is in programs that have struggled to spend all fund reservations, it is quite likely some of this funding will eventually go unused, as districts have their grant awards rescinded.
- ***Virtually None of Proposition 1D Funds Has Been Allocated.*** Per the LAO, virtually all of the bond funds authorized by Proposition 1D (\$7.33 billion) remain unallocated and unspent as of December 2007. Although applications have been submitted for the various programs in Proposition 1D, the State Allocation Board (SAB) has not yet approved them. Given the amount of time required to review and approve projects, it may be premature to approve additional K-12 bonds at this time.
- ***Lack of Data on School Facilities.*** The LAO finds that there is a lack of data to determine the amount of funding that is needed to meet the facility needs of K-12 schools. The state does not currently collect comprehensive district data on school capacity, making an estimate of overall statewide facility needs difficult. School districts are required to provide enrollment and capacity data when they apply for new construction funding, but they are not required to update this information in years when they do not apply for new construction grants. Thus, the state has no good measure of overall district capacity. Similarly, districts are required to provide information on the age of their facilities when applying for modernization funding. However, they are not required to provide this information for all facilities, and the information is not updated in future years.

- ***Lack of Data on Facility Costs.*** The LAO believes the state also lacks good data on the cost of constructing K–12 facilities. Data from a recent report by the Macias Consulting Group for the SAB contains some information on construction costs, but it does not provide district-specific information on the planning costs, such as architectural and design costs. The Office of Public School Construction (OPSC) does conduct close-out audits for all school projects that receive state funding. However, the purpose of these audits is to ensure that schools have complied with the rules and regulations of the SFP. Because the audit process can be very time-consuming, districts often provide only enough information to show that they have complied with program requirements.

Improve Financial Hardship Program. The LAO recommends the state consider an alternative approach to assessing financial hardship that focuses on the local revenue sources available to the district.

More specifically, the LAO recommends the Legislature set reasonable expectations of what a district should contribute, without looking at specific account balances. This approach would look at two indicators of district resources—the assessed value of property within the district and the amount of revenues from developer fees—to determine an expected district contribution. The state would provide hardship funding if the costs of construction projects exceeded the expected district contribution. This approach would be more equitable—expecting all districts to contribute but linking their contribution to objective measures of their property values. Such an approach also would reduce incentives for school districts to incur short-term debt merely to appear needy. In addition, it would neither penalize financially needy districts that have good reasons for saving up capital outlay resources, nor create incentives for clever accounting practices that advantage some districts at the expense of other districts.

In making this recommendation, the LAO provides the following information:

- ***Funding Available for Hardship.*** Approximately 15 percent of funds provided by the School Facilities Program for new construction and modernization projects are provided through the state’s financial hardship program, which provides funding for school districts that are determined unable to provide their matching share of project costs. Since the beginning of the School Facility program in 1998, the state has provided, on average, almost \$300 million a year for the financial hardship program.
- ***Recent Study Highlights Problems with Hardship Program.*** The LAO raises findings from a recent State Allocation Board study that highlights fundamental problems with the Financial Hardship Program. The study -- conducted by the Macias Consulting Group -- found that many school districts that applied for financial hardship for new construction and modernization projects were taking on short-term debt and temporarily transferring funds out of their capital outlay accounts to appear financially needy. Such action allowed them to qualify for additional state funding and reduce or eliminate their local share. Any funding

provided to school districts for financial hardship cannot be provided for additional facility projects. The Governor, however, does not propose any changes to address these issues.

Make Further Improvements to the Charter Schools Facilities Programs. While the Governor's proposals would make significant improvements to the system, additional changes could be made to further improve facilities programs for charter schools. In addition to approving many of the Governor's proposals, the LAO recommends the Legislature explore three other options: (1) providing more resources to per-pupil grant programs rather than increasing bond funds; (2) expanding eligibility for the Charter School Facility Grant Program; and (3) as a condition of participating in the School Facilities Program, requiring local school districts to provide charter schools with proceeds from local bonds.

The LAO believes the Governor's charter school proposals are moving in the right direction. Schools, for example, should be better able to construct their own facilities if they are able to hold title. In addition, the flexibility provided in the Charter School Facility Grant program would provide another avenue for schools to build new facilities outside of the Charter School Facility Program, while still providing support to schools that are renting and leasing facilities. The Legislature, however, could make additional changes to further improve charter school facilities programs. The LAO discusses these changes below:

- ***Provide Ongoing Per-Pupil Grants Rather Than Additional Bond Funding.*** The LAO finds that because of the high risks that charter schools face, leasing facilities is generally a more attractive option than building a new school. As a result, the LAO recommends that the Legislature consider providing additional funding for per-pupil grants rather than authorize additional bond funds for new construction. For example, rather than providing \$1 billion in bond funds for new charter school facilities (as proposed by the Governor for the 2008 bond), the Legislature could provide an equivalent annual amount in per-pupil grants. Paying off debt service for \$1 billion in general obligation bonds typically requires annual payments of approximately \$65 million per year for the next 30 years. The state could provide this funding through the Charter School Facility Grant Program, with the flexibility proposed by the Governor to allow schools to use these grant funds for new facilities. This funding could be provided using the annual budget process.
- ***Expand Participation in the Charter School Facility Grant Program.*** With an increase in ongoing funds for the Charter School Facility Grant Program, the Legislature could expand eligibility to charter schools that are not located in low-income areas. The state could allow all charter schools not housed in district facilities to be eligible for the program, with priority given to charter schools located in low-income areas, low-performing or overcrowded districts, and schools undertaking renovation projects. The Legislature would need to amend current law to change the eligibility criteria.

- ***Require Districts to Provide Charter Schools With Local Bond Funds.*** In order to improve the ability of charter schools to raise funds for construction projects, the state could amend current law and require school districts to set aside a share of local general obligation bonds for K-12 facilities that is equivalent to the share of students living in the district who attend charter schools. Charter schools could use their local share to participate in the CSFP. This also would enable charter schools to have an available source of revenue to pay for site acquisition and design costs prior to receiving state funds.

ISSUE 7: Charter School Facility Grant Program – 6110-220-0001

DESCRIPTION: The Governor proposes an increase of **\$16.0 million** in ongoing Proposition 98 funding for the Charter Schools Facility Grant program in 2008-09. The Governor's proposal continues funding at the 2007-08 level of \$18.0 million, reduced by 10.9 percent as a part of the Governor's Budget Balancing Reductions. However, the Governor proposes to provide ongoing instead of one-time Proposition 98 funding for the program. In the past, this program has been funded with one-time funds from the Proposition 98 Reversion Account.

BACKGROUND: The Charter School Facilities Grant Program was created in 2001 by SB 740 (O'Connell) to provide funding to charter schools in low-income areas to provide partial reimbursement for the rental and leasing costs of charter schools in low-income areas when these schools are unable to secure public or other facilities. Charter schools that occupy school district or county office facilities or that are provided with facilities by their authorizing authority are not eligible for the program. In order to be eligible, charter schools must meet one of the following requirements:

- The charter school is located within the attendance area of an elementary school in which at least 70 percent of the students qualify for free or reduced-priced lunches; or
- At least 70 percent of the students served at the charter school are eligible for free or reduced-priced lunches.

In meeting these requirements, eligible charter schools may not count student enrollment, as measured by average daily attendance (ADA), generated through non-classroom based instruction.

Program Growth: When the program was first funded in 2002-03, a total of 95 charter schools statewide were eligible for the program, reflecting total student ADA of 10,930. According to the Department of Education, charter school enrollments are increasing at approximately 15 percent a year, so the number of qualifying charter schools and students eligible for facility grants will continue to grow in the future. The number of ADA funded by the program has grown from 10,930 in 2002-03 to 32,072 in 2006-07. With only 95 qualifying schools in 2002-03, an estimated 134 schools qualify for the program in 2007-08.

Program Funding: While funding for the program is subject to annual budget act

appropriations, SB 740 authorizes eligible charter schools to receive \$750 per student ADA or 75 percent of their annual facility rental or leasing costs, whichever is lower. If funds appropriated through the budget act are not sufficient to cover these authorized levels, funds are pro-rated to charter schools to reflect available funds.

According to the Department of Education, the \$9.0 million appropriated in the 2006-07 budget, as pro-rated to cover 2005-06 costs, provides funding for approximately 57 percent of eligible charter school facility reimbursement need. For 2007-08, \$18.0 million was provided, which is expected to fully fund, i.e., provide 75 percent funding to all 134 qualifying schools.

Funding History: SB 740 contained intent language that the Charter School Facility Grant program be funded at the level of \$10 million a year for the 2001-02, 2002-03, and 2003-04 years, which translates to a total of \$30 million. Funds for the program were first appropriated in 2001-02 at the \$10 million level, but were later eliminated as a part of mid-year budget reductions since the program was going to run on a reimbursement basis and funds were not needed until 2002-03.

The program continues to be forward funded, so that budget year funds pay for current year expenditures. A total of \$61.4 million has been appropriated for the program over the last six years, although only \$56.7 million has actually been expended for the program due to the reversion of \$4.7 million in 2002-03 funds.

Charter School Facility Grant Program * <i>(In Millions)</i>	2002- 2003	2003- 2004	2004- 2005	2005- 2006	2006- 2007	2007- 2008	Total
Previous Appropriations	\$10.0**	\$7.7	\$7.7	\$9.0	\$9.0	\$18.0	\$61.4
Previous Funds Expended	\$5.3**	\$7.7	\$7.7	\$9.0	\$9.0	\$18.0	\$56.7

**\$10 million appropriated in 2001-02 was later eliminated as a result of mid-year cuts and program reversions.*

*** \$4.7 million in unexpended 2002-03 funds were reverted in June 2004.*

Governor's Budget Proposal. The Governor proposes to provide \$16.0 million to continue funding the Charter School Facilities Grant Program in 2008-09. The Governor's proposal continues funding at the 2007-08 level of \$18.0 million, reduced by 10.9 percent as a part of the Governor's Budget Balancing Reductions. However, the Governor proposes to discontinue the use of one-time, Proposition 98 Reversion Account funds for the program. The \$16.0 million proposed by the Governor will cover 2007-08 facility reimbursements for 134 qualifying charter schools. The Governor's 2006-07 budget provided \$9 million in one-time Proposition 98 funding for the program; this level of funding was doubled in 2007-08 in order to provide funding at the 75 percent rate per the intent of SB 740.

LAO ANALYSIS/RECOMMENDATIONS: The LAO has provided a variety of options for the Legislature to consider in setting the level of funding for the Charter School Facility Grant Program in the previous years. As a part of their 2008-09 budget analysis, the LAO is taking a different look at this program and recommending that the Legislature consider expanding eligibility for this program in lieu of providing state bond funds for the program. This issue was discussed in the previous agenda item.

COMMENTS/RECOMMENDATIONS: The intent of SB 740 was to provide three years of funding at \$10 million per year, or \$30 million, for the Charter School Facilities Grant program. The Governor proposes a sixth actual year of funding for the program in 2008-09, and adds another \$16.0 million to the \$56.7 million that has been provided for the program since its inception.

The Governor also proposes to discontinue the practice of appropriating one-time funds from the Proposition 98 Reversion Account for this program. The Administration views this as an ongoing program, reflecting a strong commitment to charter schools.

Staff recommends that the Subcommittee consider whether the Charter Schools Facility Grant Program should be continued as an ongoing program, understanding there are significant out-year cost pressures to fully fund the program given increasing charter school enrollments since the start of the program.

If the Subcommittee supports continued funding for this program as an ongoing program, *staff recommends* that the Subcommittee reconsider the rate of funding authorized by SB 740 in anticipation of continued growth for the program. SB 740 set funding at \$750 per student ADA or 75 percent of total facility expenditures submitted, whichever is less.

The 2007-08 budget provided \$18.0 million for the Charter School Facility Grant Program, which doubled funding of \$9.0 million provided in 2006-07, and funds program grants at the full 75 percent rate of reimbursement. At the \$9.0 million level in 2006-07, grant awards were prorated downward to 57 percent of eligible charter school facility grant reimbursements.

If the Subcommittee supports ongoing funding for the program, *staff recommends* that the Subcommittee consider the option of providing grant funding at the 50 to 60 percent rate, consistent with state funding shares under the School Facilities Program. This would require approximately \$11 million to \$12 million for the Charter Schools Facility Grants program in 2008-09, instead of the \$16 million proposed by the Governor. More importantly, funding at this rate would reduce future costs pressures resulting from charter school enrollment growth and allow more charter schools to be funded if new, ongoing Proposition 98 funds for the program are limited due to the state budget shortfall.

ISSUE 8: School Facilities Program – Fiscal Services Staffing

DESCRIPTION: The Governor proposes **\$740,000** and **7.0 new Fiscal Services positions** for the Office of Public School Construction (OPSC) within the Department of General Services. This proposal would be funded through state school facility bond funds. This request includes 6.0 permanent positions and 1.0 limited term positions to conduct audits under the School Facilities Program (SFP) and to establish an integrated audit information system required under an Executive Order issued by the Governor in 2007. The Administration believes additional positions are needed to address the large backlog of aging SFP audits. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

BACKGROUND:

Under the direction of the State Allocation Board (SAB), OPSC administers the functions of various school facilities and building acts (most recently, the Leroy F. Greene School Facilities Act of 1998) through which school districts establish eligibility for funding from statewide bond measures for school facility construction. The SAB approves and apportions funds for projects of eligible schools districts which are certified by the OPSC as compliant with applicable statutory prerequisites.

Over the past ten years, the voters have passed four statewide bonds that provided funding for school facilities. The following table displays funds authorized for each bond along with the amounts awarded and disbursed as of January 31, 2008:

Bond	Authorized Funds*	Awarded to Date*	Disbursed to Date*
Prop 1D (2006)	\$7,350,000	\$903,813	\$475,997
Prop 55 (2004)	\$10,015,500	\$9,342,087	\$6,653,444
Prop 47 (2002)	\$11,400,000	\$11,284,811	\$9,675,482
Prop 1A (1998)	\$6,700,000	\$6,648,081	\$6,647,663
TOTAL	\$35,465,500	\$28,178,792	\$23,452,586

(*dollars in thousands)

SFP Construction Process. The current process for construction under the SFP can take more than nine years to go from application to apportionment, from funding to expenditure, and finally from the beginning to the end of the audit process (project closeout). The following table shows where the OPSC estimates each of the school facilities bonds in terms of the progression from fund apportionment to final closeout.

	Prop 1A (1998)	Prop 47 (2002)	Prop 55 (2004)	Prop 1D (2006)
Duration of Bond Fund Apportionments	11/1998 to 10/2002	11/2002 to 12/2006	03/2004 to 05/2008*	12/2006 to 08/2011*
# of Projects Not Yet Apportioned* (\$ Amount)	0	8 (\$0.1 billion)	67 (\$0.7 billion)	2,215 (\$6.4 billion)
# of Projects Apportioned, But Not Closed (\$ Amount)	331 (\$2.5 billion)	2,117 (\$8.4 billion)	2,407 (\$9.1 billion)	615 (\$0.9 billion)
# of Projects Closed (\$ Amount)	2,126 (\$4.2 billion)	1,496 (\$2.9 billion)	111 (\$0.2 billion)	0
Closeout Period*	4/2000 to 3/2011	5/2003 to 5/2015	10/2005 to 10/2016	5/2008 to 1/2020

(*estimated)

OPSC Projected Audit Workload. According to OPSC, state regulations (Title 2 California Code of Regulations Section 1859.106) require OPSC to audit project expenditures of school districts within two years of receipt of the final expenditure report from the district. According to the regulations, the audit is conducted to ensure that districts are meeting statutory requirements with regard to their projects as well as assure that the district complied with all site acquisition guidelines.

According to OPSC, the bulk of the audit and closeout workload will hit in the next ten years. For example, OPSC indicates that its current audit workload of 1,400 projects worth \$7 billion is anticipated to grow in FY 2008-09 to 2,000 audits—a 43 percent increase. In the long-term, over the next eight years, OPSC projects that the audit workload will increase to approximately 8,000 projects, more than doubling the total of 3,400 from the previous eight years.

In anticipation of this increased workload, OPSC is requesting 7.0 additional auditor positions to augment the existing 35.0 positions in the Auditing Services Section of the OPSC.

Audit Standards. According to OPSC, since 2000, OPSC Fiscal Services staff has recovered nearly half a billion dollars from school districts that have not complied with the various laws and regulations that govern the SFP. However, concerns have been raised by the field with regard to the consistency of the standards by which these audits are conducted since OPSC does not have published or adopted audit standards. With clear audit guidelines and audit training for staff, the SFP audit program would better ensure that bond awards are being spent appropriately.

Governor's Executive Order Regarding the Establishment of an Automated and Integrated Audit Information System. According to OPSC, under the Governor's Executive Order S-02-07 the OPSC is required to establish an automated and integrated audit information system to provide better accountability and web accessibility to project information for all SFP projects. Executive Order S-02-07 sets forth the Administration's

plan to audit all 2006 General Obligation Bond expenditures and make the audit findings available to the public via the internet.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends that the 6.0 ongoing Fiscal Services positions requested by the Governor to address the audit backlog be funded on a limited-term basis. The Legislature could assess the backlog level before these positions expire and reconsider whether ongoing positions are needed.

The LAO does not believe there is need for additional positions on an ongoing basis. The LAO notes that of the 35 audit positions currently in OPSC, 8 of them currently work on financial hardship reviews. The LAO further notes there is currently a workgroup that will provide recommendations to the SAB to improve the financial hardship program. (LAO is a member of the workgroup). One goal of the workgroup is to streamline the financial hardship process. If the process is streamlined within the next few years, then some of those positions could be redirected to work on audits and the limited-term positions would expire. If the financial hardship process is not streamlined, then the limited-term positions could be made permanent.

COMMENTS/RECOMMENDATIONS:

Staff supports the LAO's recommendation to approve all 7.0 Fiscal Services positions for OPSC on a limited-term (two-year) basis to reduce the audit backlog establish and to establish an integrated audit information system.

For this reason, *staff recommends* that Subcommittee 1 recommend that Subcommittee 4 adopt the LAO's plan to approve the 7.0 Fiscal Services positions for OPSC on a *limited-term (two-year) basis*.

QUESTIONS:

1. *What is DOF's position on the LAO's recommendation to establish the 7.0 new audit positions for OPSC on a limited-term basis and reevaluate the need for ongoing positions in the future?*
2. *Can OPSC clarify their audit process and specify which laws and regulations were not complied with and how many districts have been found to be in non-compliance?*
3. *How does OPSC plan to implement the Executive Order to automate and integrate their existing audit information system? Will this new system reduce the need for ongoing audit staff?*

ISSUE 9: School Facilities – Emergency Repair Program Staffing

DESCRIPTION: The Governor proposes **\$217,000** in state General Funds and **2.0 ongoing positions** to process review and approve grants to school districts pursuant to the Emergency Repair Program (ERP). This program was established pursuant to the *Williams v. California* lawsuit settlement in 2004. The Governor also requests that audits for the ERP program be shifted to the county offices of education and funded through an ongoing appropriation in the budget for *Williams* monitoring and oversight. **Senate Budget Subcommittee 4 has heard this issue and is holding it open pending recommendations from Subcommittee 1.**

BACKGROUND: Chapter 899, Statutes of 2004 (SB 6), which implements provisions of the *Williams* settlement agreement, requires that, commencing with the 2005-06 Budget Act, the state transfer at least \$100 million, or 50 percent of the unappropriated balance of the Proposition 98 Reversion Account – whichever is greater – to the ERP. This level of funding must continue in the budget every year until the state has provided a total of \$800 million for the program.

The ERP is administered by the State Allocation Board (SAB). Funds must be used for emergency repairs in low-performing schools, specifically schools in the lowest three deciles of the Academic Performance Index (API). Chapter 899 defines emergency repairs as repairs needed to mitigate conditions that pose a threat to the health and safety of pupils or staff.

Chapter 704/Statutes of 2006 authorizes a grant-based ERP program, rather than a reimbursement-based program. Districts can now apply for funding for specific projects before undertaking the actual repair work. The new grant-based program became operational at the beginning of 2007-08. According to the SAB, the grant-based program has made it much easier for schools to access funding for emergency repairs, since school districts are no longer required to pre-pay for these projects. These changes have substantially increased the number of project requests received and approved by the ERP.

Funding History: The Governor's budget currently provides no new funding for the ERP program in 2008-09. The state has made **\$292 million** available for the ERP since 2005-06, including a recent appropriation of \$100 million for 2007-08 from AB 4XXX, which was enacted as a part of the recent special session.

Annual expenditures for the ERP total are summarized below. As of March 26, 2008, the State Allocation Board has approved a total of **\$167.8 million** for ERP projects. The ERP has a total of **\$124.3 million** in remaining funds available for expenditure. According to the LAO, there are approximately **\$380 million** worth of applications pending approval and the LAO estimates that the ERP will run out of funds by October 2008.

Expenditures from ERF	
Year	Amount
2005-06	\$3.5 million
2006-07	\$36.6 million
2007-08 (As of 3/26/08)	\$127.7 million
Total	\$167.8 million
<i>Remaining Fund Balance</i>	<i>\$124.3 million</i>

Staffing Need. According to the Office of Public Construction (OPSC), each of the 2,230 schools that were eligible for the ERP as of July 1, 2007, will file 2.5 ERP applications over the course of the next three years, resulting in 5,125 ERP applications over that time period, or 1,708 applications annually.

OPSC estimates that there are currently approximately 1,400 ERP applications on its workload list and that the average processing time per application is approximately 160 days (this is above the OPSC's goal of 90 to 120 days).

OPSC further states that this projected workload would ordinarily justify 8.0 positions; however OPSC is conservatively requesting 2.0 positions to address increased ERP applications.

Shift of Audit Function: The Governor's budget also proposes to shift ERP audits to the county offices of education as a part of the monitoring they already provide for instructional materials and staffing requirements of the *Williams* settlement agreement. The Governor's 2008-09 budget provides **\$8.9 million** in ongoing funding for county offices for the monitoring and oversight activities they currently provide and adds budget bill language requiring counties to provide audits of ERP projects. This level of funding reflects a continuation of the \$10 million appropriated in 2007-08, reduced by 10.9 percent pursuant to the Governor's Budget Balancing Reductions.

LAO ANALYSIS/RECOMMENDATION: The LAO recommends that the decision to fund the 2.0 additional positions for ERP requested by the Governor should be made after the Legislature decides how much funding to provide for the program in 2008-09. If the Legislature provides only \$100 million in the budget year, or provides no additional funds, then the ERP will run out of funds and additional positions would not be necessary in the budget year. However, if the Legislature were to provide a significant amount of funds so that there was little chance the program would run out of funds, then the LAO would recommend adding the positions.

COMMENTS:

Need for General Fund Positions Not Likely in 2008-09. The Governor's budget currently provides no funding for the ERP program in 2008-09. If the Governor proposes additional funding at May Revise, it is likely only \$100 million will be needed, since Proposition 98 Reversions estimates will probably not be large enough in 2008-09 to require a higher level of funding. In nine months, the ERP program has approved nearly \$130 million in ERP projects. This figure will be much higher by the end of the year. If the Governor provides \$100 million for the program in 2008-09, the number of projects that would be approved and funded should not be any higher than the workload for 2007-08. In this case, additional positions would not be needed. As new General Fund positions --given the state significant budget shortfall -- these positions do not appear justified in 2008-09.

Alternative Schools and State Special Schools Ineligible for ERP Grants. The Emergency Repair Program makes funds available for schools in the lowest three deciles of the Academic Performance Index (API). In order to be eligible, decile 1-3 schools must have valid API scores. This definition excludes most of the state's 1,000 alternative schools, serving between 225,000 to 300,000 students per year, from eligibility for these program funds. While two of the State Special Schools are ranked in decile 2 of the API, they are also excluded from ERP.

Staff suggests that Subcommittee 1 recommend to Subcommittee 4 approval of the LAO plan for the 2.0 ERP positions requested by the Governor. Per the LAO plan, if the Legislature provides only \$100 million in the budget year, or provides no additional funds, then the ERP will run out of funds and additional positions would not be necessary in the budget year. However, if the Legislature were to provide a significant amount of funds so that there was little chance the program would run out of funds, then the LAO would recommend adding the positions.

Staff also suggests that Subcommittee 1 recommend to Subcommittee 4 rejection of the Governor's proposal to shift the audit function for the ERP program to the county offices of education. The LAO does not support this shift for a number of reasons, including concerns about local mandated costs. Subcommittee staff questions whether county office staff would have the expertise to conduct these project audits.